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BANKERS' AID IN 1861-62¹

BY LOUISE P. KELLOGG

When the news of the firing upon Fort Sumter aroused the North, all eyes were turned upon New York, not only as the monetary center of the country, but as a city most closely allied in financial interests with the South. The moneyed men of that city responded to the country's danger. Upon the stock exchange cheers were given for Major Anderson, and April 17, 1861, resolutions were passed pledging the loyalty of the institution to the government. Anderson and his command from Fort Sumter reached New York on April 18, and on Saturday, April 20, a monster mass-meeting was held in Union Square, where five speaker's stands had been erected. The resolutions adopted at this meeting not only pledged the loyalty of the city, but provided for a Union Defense Committee, comprising thirty of the most prominent financiers and bankers headed by General John A. Dix, recently secretary of the treasury under President Buchanan. The mayor and the comptroller of the city were ex-officio members of this committee. The city council appropriated \$1,000,000 for the immediate needs of the New York troops, and raised the funds by the sale of Union Defense bonds. The Committee of Union Defense acted ex-officio as a federal agent, attending to the equipment and dispatching of regiments, purchasing steamers for transportation, feeding and sheltering the troops, without waiting for the action of the federal authorities. At one time three members of the committee were entrusted with \$2,000,000 federal money without security or compensation. By these means the Seventh New York

¹ This article was originally prepared as a memorandum for the information of the Wisconsin State Council of Defense, in response to the request of Charles McCarthy, secretary of the Council.

Regiment was dispatched for the protection of Washington, and other troops were moved toward the front. The Union Defense Committee was maintained for about one year. Its later duties were concerned with the care of funds raised for the benefit of the volunteers and their families. It collected and disbursed for this purpose about \$1,000,000.

Meanwhile the city banks were loyally endeavoring to prevent a financial crisis. April 25, 1861 they determined to hold all their specie as a common fund, this being a precautionary measure to sustain public confidence. There were in New York City fifty-four banks with a capital of \$69,907,000. Much of their paper was held in the southern states, where debts to northern holders were quickly repudiated. Nevertheless, in the entire state of New York only five banks suspended during 1861, and none of these in New York City.

Following the example of New York, the banks of Boston and Philadelphia pooled all their cash reserves. The Boston banks, of which there were forty-two, with a capital of \$38,231,000, and which had a clearing-house system, aided in preventing an immediate panic.

Western banks were less well prepared to meet the emergency. Most of them held southern state bonds as the basis of their currency system. During 1861 bank after bank went to the wall, and the notes of others depreciated with startling rapidity.

All the banks of that period were either state banks or private banking concerns. The national banking-system did not come into being until 1863. The first (though indirect) aid furnished by the banks in the national crisis of 1861 was the preservation of their own integrity, and therewith the entire credit system of the North, from collapse. This was accomplished through the instrumentality of the banks of the three chief cities of the East—New York, Boston, and Philadelphia. In the West, a few banks in Cincinnati, Chi-

cago, and Milwaukee were strong enough to support the situation, even while the larger part of the western banks went to the wall.

The direct aid furnished by the banks and bankers of the country to the state and federal governments during the early years of the Civil War may be classified under the three heads of contributions, loans, and agencies.

CONTRIBUTIONS

The call for troops awoke a patriotic fervor in many hearts, which led to an offering of money as well as of men. In this outpouring of gifts the bankers took their part, some giving as individuals, many in the name of their institutions. No complete record of these patriotic contributions is available. *Harper's Weekly* of May 25, 1861, estimated that the individual gifts of more than \$1,000 from counties, cities, societies, corporations, and other organizations totaled \$27,000,000.

LOANS

The first necessity was that of temporary loans for both the state and federal governments.

Temporary loans to states. Patriotic impulse prompted the immediate offering of loans by the banks. In Massachusetts the bankers of Boston tendered the state government a loan up to ten per cent of their combined capital. In Illinois the banks of Springfield offered the state \$100,000 on the day Lincoln called for troops. This was supplemented by the Chicago banks' tender of \$500,000. Throughout the early days of the war the banks in all localities were called upon for loans on the credit of the state. These were funded at seven per cent, then the usual interest for such transactions.

Temporary loans to the federal government. The treasury of the United States was in a desperate condition at the outbreak of the Civil War. Lacking resources even for its daily needs, it was totally unprepared for the great

strain immediately placed upon it. Secretary Chase did not have recourse to the bankers, however, until after the battle of Bull Run in July had proved that the war was not to be an affair of "three months."

On the day that the news of the defeat at Bull Run reached Philadelphia, a young banker recently removed to that city from Ohio, an ardent partisan of Secretary Chase, drew up a paper offering to advance to the Secretary of the Treasury specified sums for sixty days at six per cent interest, returnable in specie or interest-bearing treasury notes. With this proposal he visited the principal banks and financial houses in his city, and raised for immediate government needs nearly \$2,000,000 in one day. Chase was interested and grateful, and the fortunes of Jay Cooke, the young banker, were made from that day.

Early in 1862, when the government's daily needs were increasing enormously, John J. Cisco, assistant treasurer of the sub-treasury at New York, made arrangements for a loan from the city banks of their temporarily idle funds. These were received on deposit for thirty days, subject to withdrawal thereafter on ten days' notice. At first Cisco by this means secured much specie at four per cent; later, five and six per cent were paid for these advances. This money was largely used for the payment of the interest on the public debt. One banker in New York, it is said, became uneasy after lending the sub-treasury \$1,000,000, and demanded its return. Cisco told him to send his carts for it immediately. The next day his faith in the government was restored and he concluded to leave his reserve with the sub-treasurer.

An instance of immediate aid to the government's foreign diplomats is related in the biography of the late J. Pierpont Morgan. Morgan was in London on business for his house at a time when Charles Francis Adams was endeavoring to prove to the English government that certain vessels fitting in British ports were intended for Confederate privateers.

The officials were slow to accept Adams' proofs, and he was much alarmed lest the commerce-destroyers should get to sea before he had succeeded in having an embargo placed on their departure. The British authorities finally agreed to detain the ships on condition that Adams should deposit £1,000,000 guarantee to indemnify the government should the owners not prove to be Confederates. Adams was in a dilemma: he could not well refuse such a proposition, but long before he could receive the money from America the cruisers would be at sea. He tried to borrow on his personal credit from London bankers, only to be rebuffed. Young Morgan heard of the situation, sought the ambassador, and promised to deliver \$5,000,000 in gold into his hands in two days, asking only his personal receipt in return, while stipulating absolute secrecy concerning his patriotic action. In this wise two of the commerce-destroyers were detained in port, and the integrity of the American ambassador was vindicated.

Secured, or long-time, loans to states. Upon the news of the firing on Fort Sumter and the subsequent call for troops every northern legislature then in session appropriated a fund for war purposes. Indiana, for example, voted \$500,000 for arms and equipment, and \$100,000 for a contingent fund. Connecticut made an issue of \$800,000 of war bonds. These funds were raised in various ways. In Massachusetts and Connecticut they were offered for popular subscription and sold at par. The western states placed their bonds on the New York stock market, where in many cases they sold at a considerable discount. Where the state's credit was poor, and its banking-system insecure, the bonds could not be placed, and were recalled after being offered. Such was the case with Iowa and Wisconsin. Ohio recalled its bonds, after they had been advertised in New York, when it was learned that the federal government assumed all war expenses, and would refund these to the states.

Wisconsin adopted an ingenious plan, suggested to the State Bankers' Association by Alexander Mitchell. The state banks had deposited with the state comptroller securities for their currency issues. The larger proportion of these securities was made up of the bonds of the southern or border states. Those of the secession states were considered worthless, while those of Missouri, large holdings of which were in Wisconsin, declined rapidly. The comptroller, as required by law, made assessments upon the state banks, which they found it difficult to meet. Mitchell proposed that the banks should purchase the bonds of the state war fund at par, and that the comptroller should accept them for the assessments. In this wise the credit of the state was improved and the currency secured. The details of the arrangement were that the banks took \$800,000 of the war-fund bonds, seventy per cent of which was paid at once, three-fifths in specie and two-fifths in sound currency. The remaining thirty per cent was to be met in fifteen annual installments. The adoption of this expedient furnished the state with ready money, placed the banking currency on a sound foundation, and restored confidence to the community. Wisconsin's banks resumed specie payments at the date fixed by law, December 1, 1861, and maintained them for some time after the New York banks had suspended such payments.

On the basis of these war-fund appropriations state agents flocked to New York to arrange for the purchase of war material. Arms and ammunition had to be largely secured from Europe. The New York banks arranged these transactions, and furnished exchange and information. The competition between the several state agents and those of the federal government raised prices inordinately. This was remedied when the federal government assumed full responsibility for all equipment.

The federal loans. The most important function of the banks was the aid they furnished the Secretary of the

Treasury in floating the great federal loans that were required by the war necessities. The special session of Congress which met in July, 1861, appropriated \$250,000,000 for the immediate needs of the government, leaving large latitude with the Secretary of the Treasury as to the method by which this amount was to be raised.

The defeat at Bull Run put a very serious strain on the credit of the United States, and the forced sale of securities in a foreign market would have been disastrous to the future conduct of the war. In the dilemma in which he was placed, Secretary Chase paid a visit to New York, where Cisco, the assistant treasurer, invited the prominent financial authorities to meet him for consultation. Chase frankly stated the serious nature of the situation, and requested assistance and advice. From the standpoint of policy this was a wise measure, since previous to this time the New York bankers had held somewhat aloof from the operations of the federal treasury. Their prompt support at this crisis is to their perpetual credit, for although they largely profited in the end by this government connection, at the time of the operation the transactions were of daring boldness. The banks realized that without a firm government their own operations were imperiled, and thus they risked their all to support the government in its crisis.

At the first conference George E. Coe, president of the Exchange Bank, proposed an association to subscribe for the government loan. A committee appointed to develop a plan reported on August 15 for thirty-nine New York banks. Representatives from Boston and Philadelphia were likewise present, and the loan was apportioned among the three cities in accordance with the bank capital of each; that is, seventy per cent was to come from New York, twenty per cent from Boston, and ten per cent from Philadelphia. The association thus formed agreed to take immediately \$50,000,000 of treasury bonds payable in three years with interest at seven and three-tenths per cent. This rate, representing a payment of

two cents a day on each one hundred dollars loaned, had been adopted by Secretary Chase in the hope of popularizing the bonds with the people. The banks composing the association were to pay over to the sub-treasuries of the three cities in specie ten per cent of the amount subscribed; the remainder was to be placed to the credit of the United States upon the books of the subscribing institutions. Meanwhile the bonds were to be offered to the people, both by the banks and the sub-treasurers, and no other United States securities were to be sold, except in Europe, while these subscriptions were being solicited. The associated banks also agreed to float a similar loan of \$50,000,000 in October—if it had not by that time been taken by popular subscription—and another \$50,000,000 in December.

This was the largest financial operation that had ever been attempted in the United States. Its successful accomplishment at that time was of the greatest possible value in maintaining public confidence, and in uniting the fortunes of the financiers with those of the federal government. It was a tribute to the organizing ability as well as to the patriotism of the founders of the bank association. The capital of the united banks was but \$120,000,000, and their coin assets only \$63,000,000. Their subscription to \$150,000,000 of government securities was thus an act of faith.

In practice this agreement did not work out as the bankers had hoped. Chase refused to suspend the sub-treasury act, though authorized to do so by Congress, in order that the banks might pay the government's creditors in clearing-house certificates; thus the specie began draining away from the banks into the sub-treasuries. The Secretary also began the issue of demand notes on the treasury in considerable amounts. Moreover, the public sales were less than had been anticipated. The bankers were accused of attempting to dictate to the government concerning the conduct of the war. The inevit-

able result of all this friction was the suspension of specie payments by the New York banks December 30, 1861.

With the immense strain upon the government's resources, the catastrophe of suspension would no doubt have occurred sooner or later; but financial historians believe that had Secretary Chase been more willing to accept the bankers' propositions, had he coöperated with them more fully, the financing of the Civil War might have wrought less damage in the business world than it did.

AGENCIES

During the sale of the \$150,000,000 bond issue Secretary Chase appointed a large number of agents in every part of the United States to secure the popular subscriptions. Most of these were presidents of local banks. The agents were allowed a commission of one-fifth of one per cent on the first \$100,000, and one-eighth on later amounts. One hundred and fifty dollars was allowed for advertising purposes. A traveling agent went through the West, arranging for local agencies and assisting in advertising. It was proposed to allow the country bankers a larger commission with a view to stimulating wide sales, but this proposal the Secretary of the Treasury declined to adopt.

The western agents were not very successful in promoting this loan. Jay Cooke, of Philadelphia, sold more than one-fourth of all the bonds issued to the agents; but, in order to do so, spent more than the amount of his commission in advertising.

Secretary Chase became much interested in the measures adopted by this Philadelphia banker. As more and more pressure was put upon him for funds, he often consulted with Cooke, and frequently permitted the latter to buy United States securities to buoy up a falling market. On October 23, 1862 Chase appointed Jay Cooke sole agent for the conversion of legal tender treasury notes into the \$500,000,000

six per cent five-twenty bonds authorized by Act of Congress February 25, 1862. By advertising on a larger scale than had hitherto been known, and by employment of 2,500 sub-agents, mostly bank presidents, in every part of the North, Jay Cooke accomplished his enormous task, the loan being finally over-subscribed by \$11,000,000. His commission was three-eighths of one per cent on the first \$100,000,000, of which one-eighth went to the sub-agent, and one-eighth to advertising and to placating the public press. The loan was sold in small denominations to every class of the population. Cooke patriotically resisted all proposals to sell large blocks of the bonds to European holders. He believed a bond issue held by the people was the safest means of financing and of prosecuting the war. He made the loan a great democratic institution. It is not too much to say that his success in selling this \$500,000,000 bond issue "dispirited the South, gave Europe . . . useful evidence of the determined courage and material wealth of the northern people, and was a factor of vast importance in deciding the fate of the Union."